

Commonwealth of Puerto Rico

Comprehensive Annual Financial Report
Year Ended June 30, 2011

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2011



Commonwealth of Puerto Rico

***Honorable Luis G. Fortuño Burset
Governor***

Prepared by:

Puerto Rico Department of the Treasury

***Jesús F. Méndez Rodríguez, CPA
Secretary of the Treasury***

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Assistant Secretary of Central Accounting***

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CPA JESUS F. MENDEZ RODRIGUEZ
SECRETARY OF TREASURY

April 27, 2012

The Honorable Governor of Puerto Rico,
Members of the Legislature, and People of Puerto Rico:

It is my pleasure to present the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Puerto Rico (the "Commonwealth") for the fiscal year ended June 30, 2011. This report, presented in three sections, Introductory, Financial, and Statistical, is the primary means of reporting the Commonwealth's financial activities.

The Introductory Section includes this letter of transmittal, general information about the Commonwealth, a list of the Commonwealth's principal elected and appointed officials and an organizational chart. The Financial Section includes the independent auditors' report, management's discussion and analysis (MD&A), the audited basic financial statements as listed in the table of contents and the notes thereto and the required supplementary information. The statistical section set forth selected unaudited financial and demographic information for the Commonwealth on a multiyear basis.

Profile of the Commonwealth

The Puerto Rico Department of the Treasury is responsible for the preparation of this report. The responsibility for the accuracy of presented data and the completeness and fairness of the presentation, including all of the disclosures, rests on the Commonwealth's management. To the best of our knowledge and belief, the following data, as presented, is accurate in all material respects and is presented in a manner designed to set forth the financial position and the results of operations of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. We have included all the necessary disclosures to enable the reader to gain a thorough understanding of the Commonwealth's activities.

The financial reporting entity consists of the primary government, other organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is able to either impose its will on that organization or there is a

Agency funds consist of the Special Deposits Fund. This agency fund includes deposits under the custody of the Courts of Justice, Minors Support Administration for child support payments, deposits under the custody of the Commissioner of Insurance of the Commonwealth for escheated property, and for insurance companies under liquidation and an allocated share of the sales and use tax corresponding to the municipalities.

Cash Management Policies and Practices

The Commonwealth maintains a cash pool for its cash and cash equivalents. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest-bearing accounts in the Government Development Bank for Puerto Rico, a discretely presented component unit. In addition, the Puerto Rico Government Investment Trust Fund (PRGITF) was created by the Commonwealth pursuant to Act No. 176 of August 11, 1995, as a no-load diversified collective investment trust that for the purpose of providing eligible governmental investors of Puerto Rico with a convenient and economical way to invest in a professionally managed money market portfolio. The deposits on hand and the investments purchased are not collateralized, secured, or guaranteed by the Commonwealth or any of its agencies, instrumentalities, or political subdivisions.

The Commonwealth's investment policy is to minimize credit and market risk while maintaining a competitive yield on its portfolio. The cash temporarily idle during this year was invested mainly in U.S. government securities, stocks, corporate bonds, repurchase agreements, Commonwealth securities other trading securities, and short-term investments. These are primary government investments that are restricted and unrestricted.

Capital Assets

These basic financial statements include the capital assets of the Commonwealth. A discussion of capital assets accounting is included in the MD&A that is part of the basic financial statements. More detailed information about capital assets can be found in the notes to the basic financial statements.

Debt Administration

The Commonwealth had a number of debt issues outstanding. The Commonwealth's general obligation and appropriation debt is currently rated "Baa1" by Moody's Investors Service, "BBB" by Standard & Poor's Ratings Services, and "BBB+" by Fitch, Inc.

Section 2, Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes are backed by the full faith, credit and taxing power of the Commonwealth shall not be issued if the amount of the principal and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenues raised under the provisions of the Commonwealth Legislation and deposited into the Treasury of Puerto Rico in the two fiscal years preceding the fiscal year of such proposed issuance. Section 2, Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded through payments by the commonwealth on such guaranteed debt. At June 30, 2011, the Commonwealth is in compliance with the debt limitation requirement. See the computation of the legal debt margin in the statistical section of this report. More detailed information about the long-term debt can be found in the notes to the basis financial statements.



In addition, the administration designed and began to implement the Strategic Model for a New Economy, a series of economic development initiatives to enhance Puerto Rico's overall economic competitiveness and strengthen specific industry sectors. The current administration is emphasizing the following initiatives to enhance Puerto Rico's competitive position: (i) overhauling the permitting process, (ii) reducing energy costs, (iii) reforming the tax system, (iv) promoting the development of various projects through public-private partnerships, (v) implementing strategic initiatives targeted at specific economic sectors, and (vi) promoting the development of certain strategic/regional projects. These economic development initiatives are intended to support the prospects of long-term and sustainable growth.

Financial and Economic Condition

The MD&A, which can be found immediately following the independent auditors' report, provides an overview of the Commonwealth's financial activities addressing both governmental and business activities reported in the government wide financial statements. In addition, the MD&A focuses on the Commonwealth's major funds. Component units and fiduciary activities are excluded from the MD&A. Furthermore, the MD&A provides an overview of additional economic factors affecting the Commonwealth.

Acknowledgements

The preparation of this report requires the collective efforts of numerous finance personnel throughout the Commonwealth and is made possible only with the cooperation and support of the Executive, Legislative, and Judicial branch agencies, and component units of the Commonwealth. I sincerely appreciate the dedicated efforts of all these individuals.

The report could not have been accomplished without the professionalism and dedication of Jaysel D. Chevres, as well as the rest of personnel of the Central Government Accounting area. This report confirms our commitment to the people of Puerto Rico, the Governor, the Legislature, and the financial community to maintain our basic financial statements in conformity with the highest standards of financial accountability.

Respectfully submitted,



Hon. Jesús F. Méndez Rodríguez, CPA
Secretary of the Treasury



SECRETARY OF THE TREASURY

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COMMONWEALTH OF PUERTO RICO

PRINCIPAL OFFICIALS

Luis G. Fortuño Burset
Governor

Members of the Cabinet

Marcos Rodríguez Ema
Chief of Staff

**Kenneth D. McClintock
Hernández**
Secretary of State

**Guillermo A. Somoza
Colombani**
Secretary of Justice

Jesús F. Méndez Rodríguez
Secretary of the Treasury

Edward Moreno Alonso
Acting Secretary of Education

Miguel A. Romero Lugo
Secretary of Labor and
Human Resources

Lorenzo González Feliciano
Secretary of Health

Miguel Santiago Córdova
Acting Secretary of
Agriculture

**Rubén A. Hernández
Gregorat**
Secretary of Transportation and
Public Works

José R. Pérez Riera
Secretary of Economic
Development and Commerce

Yanitsia Irizarry Méndez
Secretary of Family Affairs

Miguel B. Hernández Vivoni
Secretary of Housing

Daniel J. Galán Kercadó
Secretary of Natural and
Environmental Resources

Luis G. Rivera Marín
Secretary of Consumer Affairs

Henry E. Neumann Zayas
Secretary of Sports and
Recreation

Jesús González Cruz
Secretary of Corrections and
Rehabilitation

LEGISLATIVE OFFICERS

Thomas Rivera Schatz
President, Senate

Jennifer González Colón
Speaker, House of
Representatives

FISCAL OFFICERS

Juan Carlos Pavía
Director, Office of Management
and Budget

Juan Carlos Batlle
President, Government
Development Bank for
Puerto Rico



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INDEPENDENT AUDITORS' REPORT

To the Honorable Governor and Legislature
Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico (the "Commonwealth"), as of and for the year ended June 30, 2011, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the following activities, funds, and component units:

- Puerto Rico Public Housing Administration, Human Resources and Occupational Development Council, the Office for the Administration of the Assets of the Urban Renovation and Housing Corporation of the Commonwealth of Puerto Rico, and the Office for the Improvements of Public Schools, which collectively represent 20% and 4%, respectively, of the assets and revenues of the governmental activities and 28% and 4%, respectively, of the assets and revenues of the general fund;
- The Unemployment Insurance Fund, which is both a major fund and 35% and 42%, respectively, of the assets and revenues of the business-type activities. The Additional Lottery System, which represents 78% and 46%, respectively, of the assets and revenues of the lotteries fund and 12% and 44%, respectively, of the assets and revenues of the business-type activities. The Disability Insurance Fund, the Drivers' Insurance Fund, the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, which represent 54% and 4%, respectively, of the assets and revenues of the business-type activities and 6% and 2%, respectively, of the assets and revenues of the aggregate remaining fund information;
- Public Buildings Authority special revenue, debt service, and capital project funds; The Children's Trust special revenue and debt service funds; and the Puerto Rico Maritime Shipping Authority debt service fund, which collectively represent 5% and .05%, respectively, of the assets and revenues of the governmental activities and 6% and .28%, respectively, of the assets and revenues of the aggregate remaining fund information;
- Entities identified in note 2 that are presented as discretely presented component units, which collectively represent 72% and 91%, respectively, of the assets and revenues of the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the activities, funds, and component units indicated above, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth, as of June 30, 2011, and the respective changes in financial position and respective cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, during fiscal year 2011, the Commonwealth adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The management's discussion and analysis on pages 18 through 47 and the schedules of funding progress on pages 254 and 255 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commonwealth's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Commonwealth's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth's management. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

As discussed in Note 20 to the basic financial statements, the Pension Trust Funds' unfunded actuarial accrued liability and funded ratio as of June 30, 2011, were approximately \$33,115 million and 11%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico, the Commonwealth of Puerto Rico Judiciary Retirement System, and the Puerto Rico System of Annuities and Pensions for

Teachers, comprising the Pension Trust Funds, will not be able to fully fund pensions after the fiscal years 2014, 2019, and 2022, respectively, if measures are not taken to reduce the unfunded actuarial accrued liability and increase the funded ratio of the Pension Trust Funds.

Subitte & Touche LLP

April 27, 2012

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COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS ¹ JUNE 30, 2011

The following is a narrative overview and analysis of the financial activities of the Commonwealth of Puerto Rico (the "Commonwealth" or the "Government") for the fiscal year ended June 30, 2011. The management discussion and analysis ("MD&A") is intended to serve as an introduction to the basic financial statements, which have the following components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the Commonwealth's financial activities; (c) identify any material changes from the original budget; and (d) highlight individual fund matters. We encourage readers to review this information in conjunction with the Letter of Transmittal, which is located in the Introductory Section of this report, and the Commonwealth's basic financial statements, including the notes to the financial statements, which are located after this analysis. During fiscal year 2011, the Commonwealth implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement introduced new terms that are defined in Note 24 to the basic financial statements.

FINANCIAL HIGHLIGHTS – Primary Government

General Fund Highlights

- Total General Fund actual revenues on a budget basis (excluding other financing sources) for fiscal year 2011 was \$8 billion, representing an increase of approximately \$61.3 million, or .7%, from original budgeted revenues.
- Total actual expenditures² on a budget basis of \$9.1 billion represented a decrease of \$565 million when compared with fiscal year 2010. Furthermore, budgetary deficit as a percentage of revenues improved from 44% in 2009 to 27% in 2010 and to 14% in 2011.
- Transfers out and other payments for debt service includes lines of credits extended by GDB to the Commonwealth to refinance \$490.9 million of interest accrued during such fiscal year and a portion of principal due on July 1, 2011 on the Commonwealth's general obligation bonds. These lines were repaid through the issue of PR Public Improvement Refunding Bonds Series 2011 A & C. Also, during the fiscal year 2011, PBA also used a line of credit from GDB to make payments of approximately \$147.8 million of interest accrued during such fiscal year on its Commonwealth's guaranteed bonds, which line of credit was refinanced with the proceeds of a series of

¹ The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commonwealth's management. The independent auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. Therefore, the independent auditors did not audit such information and did not express an opinion on it.

² Total actual expenditures include \$28.7 million paid and accrued during fiscal year 2011 as part of the early retirement benefits established by Act No 70.

COMMONWEALTH'S CAPITAL ASSETS - PRIMARY GOVERNMENT

JUNE 30, 2011

(Expressed in thousands)

	Governmental activities	Business-type activities
Land	\$ 867,215	\$ -
Construction in progress	1,117,079	-
Buildings and building improvements, net	5,118,329	-
Equipment, furniture, fixtures, vehicles and software, net	189,562	1,660
Infrastructure, net	474,505	-
Total capital assets	<u>\$ 7,766,690</u>	<u>\$ 1,660</u>

Debt Administration

General obligation bonds are backed by the full faith and credit of the Commonwealth, including the Commonwealth's power to levy additional taxes to help ensure repayment of the debt.

The Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth are not to be issued if the amount of the principal of, and interest on, such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenue raised under the provisions of Commonwealth legislation and conveyed into the treasury (internal revenues) in the two fiscal years preceding the current fiscal year. Section 2, Article VI of the Constitution of the Commonwealth does not limit the amount of debt that the Commonwealth may guarantee as long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. At June 30, 2011, the Commonwealth is in compliance with the debt limitation requirement.

The Commonwealth's policy has been and continues to be to prudently manage such debt within the constitutional limitation. Debt of municipalities, other than bond anticipation notes, is supported by real and personal property taxes and municipal license taxes. Debt of public corporations, other than bond anticipation notes, is generally supported by the revenues of such corporations from rates charged for services or products. However, certain debt of public corporations is supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or taxes.

Internal revenues consist principally of income taxes, property taxes, sales and use taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Treasury Department of Puerto Rico and motor vehicle fuel taxes and license fees, which are allocated to the Highways and Transportation Authority, are not included as internal revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service. In addition, the portion of the sales and use tax allocated to COFINA is not included as internal revenues since the legislation that created COFINA transferred ownership of such portion of the sales and use tax to COFINA and provided that such portion was not available resources under the Constitutional provisions relating to full faith and credit bonds.

The Commonwealth's general obligation and appropriation debt is currently rated "Baa1" by Moody's Investors Service ("Moody's"), "BBB" by Standard & Poor's Ratings Services ("S&P"), and "BBB+" by Fitch, Inc. ("Fitch").

COMMONWEALTH OF PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Commonwealth of Puerto Rico (the “Commonwealth”) was constituted on July 25, 1952, under the provisions of the Commonwealth’s Constitution (the “Constitution”) as approved by the people of Puerto Rico and the U.S. Congress. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government. The Commonwealth assumes responsibility for general government, public safety, health, public housing and welfare, education, and economic development.

The accompanying basic financial statements of the Commonwealth are presented in conformity with Generally Accepted Accounting Principles (GAAP) for governments in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying basic financial statements present the financial position of the Commonwealth and its various funds, the results of operations of the Commonwealth and its various funds and fund types, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2011 and for the year then ended. The basic financial statements include the various departments, agencies, boards, commissions, public trusts and public corporations, and any other organizational units governed by the Puerto Rico Legislature and/or officers of the Commonwealth.

(a) Financial Reporting Entity

The accompanying basic financial statements include all departments, agencies, and governmental entities whose funds are under the custody and control of the Secretary of the Treasury of the Commonwealth and the Commonwealth’s component units pursuant to Act No. 230 of July 23, 1974, as amended, known as Commonwealth of Puerto Rico Accounting Law. The Commonwealth has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth’s basic financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include: (i) appointing a voting majority of an organization’s governing body and the ability of the Commonwealth to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

As required by GAAP, these basic financial statements present the Commonwealth and its component units.

(b) Component Units

Component units are entities that are legally separate organizations for which the Commonwealth’s elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth’s basic financial statements to be misleading or incomplete. GAAP details two methods of presentation: (i) blending the financial data of the component units’ balances and

15. SHORT AND LONG-TERM OBLIGATIONS

(a) Primary Government

Summary of Short and Long-term Obligations — Short and long-term obligations at June 30, 2011 and changes for the year then ended are as follows (expressed in thousands):

	Balance At June 30, 2010	Debt Issued	Debt Paid	Original Issue (Discounts) Premiums	Other Net Increases (Decreases)	Balance At June 30, 2011	Due Within One Year
Short Term Obligations							
Notes payable to GDB	\$ 134,687	\$ -	\$ (102,508)	\$ -	\$ -	\$ 32,179	\$ 32,179
Long Term Obligations							
Governmental activities:							
General obligation and revenue bonds	\$28,597,716	\$2,138,125	\$(1,765,907)	\$(20,253)	\$ 176,455	\$29,126,136	\$ 374,027
Commonwealth appropriation bonds	740,077	-	-	-	3,107	743,184	-
Notes payable to component units:							
GDB	1,426,407	811,948	(589,578)	-	-	1,648,777	121,779
Other	62,888	-	(13,970)	-	20,000	68,918	37,899
Capital leases	234,984	198	(5,608)	-	-	229,574	5,606
Total bonds, notes payable and capital leases payable	31,062,072	2,950,271	(2,375,063)	(20,253)	199,562	31,816,589	539,311
Compensated absences	1,506,193	-	(740,546)	-	664,918	1,430,565	709,810
Net pension obligation	7,963,950	-	-	-	1,361,402	9,325,352	-
Net postemployment benefit obligation	132,587	-	-	-	42,331	174,918	-
Voluntary termination benefits payable	-	-	-	-	332,170	332,170	34,386
Other long-term liabilities	2,192,554	-	-	-	132,909	2,325,463	258,589
Total governmental activities	42,857,356	2,950,271	(3,115,609)	(20,253)	2,733,292	45,405,057	1,542,096
Business-type activities:							
Compensated absences	4,229	-	-	-	583	4,812	2,512
Obligation for unpaid lottery prizes	223,901	-	-	-	(5,415)	218,486	57,324
Termination benefits	-	-	(269)	-	2,910	2,641	470
Claims liability for insurance benefits	103,269	-	-	-	(16,931)	86,338	86,338
Total business-type activities	331,399	-	(269)	-	(18,853)	312,277	146,644
Total primary government	\$43,188,755	\$2,950,271	\$(3,115,878)	\$(20,253)	\$2,714,439	\$45,717,334	\$1,688,740

The balances of general obligation and revenue bonds paid included within other financing uses and principal as reported in the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds do not agree with amounts reported as debt paid in the above table primarily because the above table includes debt paid on general obligation and revenue bonds, which was accrued during the fiscal year 2010 as a fund liability. The prior year fund liability mentioned above amounted to approximately \$408 million and was reported as a balance sheet transaction in the fund financial statements in 2010. Also, during fiscal year 2011 the amount of approximately \$338 million was accrued as a fund liability. The net effect of \$70 million is the difference between the debt paid on bonds and notes in the previous table and the payments in the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds.

The other net increases in bonds and notes payable consist of deferred losses on refunding, net of amortization, and amortization of premiums and discounts on bonds and new notes payables. These adjustments did not require any source or use of cash.

Compensated absences, net pension obligation, net postemployment benefit obligation, termination benefits, other long-term liabilities, obligation for unpaid lottery prizes, and claims liability for insurance benefits reflect other net increases (decreases) resulting from adjustments and changes to agree these obligations to their new estimated balances at June 30, 2011.

(b) Debt Limitation

The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, Section 2, Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth shall not be issued if the amounts of the principal of and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenues raised under the provisions of Commonwealth legislation and deposited into the Treasury (hereinafter “internal revenues”) in the two fiscal years preceding the fiscal year of such proposed issuance. Section 2, Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. Internal revenues consist principally of income taxes, sales and use tax, property taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Commonwealth, and motor vehicle fuel taxes, crude oil and derivative products excise taxes and license fees, which are allocated to PRHTA, a discrete component unit, are not included as revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service. In addition, the portion of sales and use tax allocated to COFINA is not included as internal revenues consistent with the legislation creating COFINA, which transfers ownership of such portion of the sales and use tax to COFINA and provides that such portion is not “available resources” under the constitutional provisions relating to the payment of debt service. At June 30, 2011, the Commonwealth is in compliance with the debt limitation requirement.

STATISTICAL SECTION (UNAUDITED)

This part of the Commonwealth of Puerto Rico's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health. The following are the categories of the various schedules that are included in this Section:

Contents	Pages
Financial Trends Information	291–295

These schedules contain trend information to help the reader understand how the Commonwealth's financial performance and well-being have changed over time.

Revenue Capacity Information	297–298
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This schedule contains information to help the reader assess the Commonwealth's most significant local revenue sources.

Debt Capacity Information	300–301
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These schedules present information to help the reader assess the affordability of the Commonwealth's current levels of outstanding debt and the Commonwealth's ability to issue additional debt in the future.

Demographic and Economic Information	303–305
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These schedules offer demographic and economic indicators to help the reader understand the environment within which the Commonwealth's financial activities take place.

Operating Information	307
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This schedule contains service data to help the reader understand how the information in the Commonwealth's financial report relates to the services the government provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

SCHEDULES OF DEBT CAPACITY INFORMATION

COMMONWEALTH OF PUERTO RICO

LEGAL DEBT MARGIN INFORMATION (UNAUDITED)

LAST TEN FISCAL YEARS

(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Internal revenue average for two years	\$ 7,592,395	\$ 7,333,246	\$ 7,650,006	\$ 8,233,717	\$ 8,327,744	\$ 8,061,593	\$ 7,779,987	\$ 7,564,034	\$ 7,185,660	\$ 6,748,772
Legal debt limit — 15% of internal revenue average for two years	1,138,859	1,099,987	1,147,501	1,235,058	1,249,162	1,209,239	1,166,998	1,134,605	1,077,849	1,012,316
Maximum debt service requirement	876,205	826,812	785,298	785,298	719,927	680,742	630,685	598,547	599,611	521,035
Additional legal debt service requirement margin	262,654	273,175	362,203	449,760	529,235	528,497	536,313	536,058	478,238	491,281
Total maximum debt service requirement as a percentage of internal revenue average for two years	11.54 %	11.27 %	10.27 %	9.54 %	8.64 %	8.44 %	8.11 %	7.91 %	8.34 %	7.72 %
Legal debt margin calculation for fiscal year 2011:										
Internal revenue for the year ended June 30, 2010					\$ 7,363,839					
Internal revenue for the year ended June 30, 2011					<u>7,820,950</u>					
Total internal revenue for the years ended June 30, 2010 and 2011					<u>15,184,789</u>					
Internal revenue average for the two years					7,592,395					
Legal debt limit — 15% of internal revenue average for the two years					1,138,859					
Maximum debt service requirement					<u>876,205</u>					
Additional legal debt service requirement as a percentage of internal revenue average for two years					<u>\$ 262,654</u>					

Sources: Government Development Bank for Puerto Rico, General obligation debt service may not exceed 15% of the average of the internal revenues for the last two fiscal years.